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THE COMMUNIST STATE OF NORTH KOREA: A CAPITALIST SOCIETY

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THE COMMUNIST STATE OF NORTH KOREA: A CAPITALIST SOCIETY

by

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The Democratic People's Republic of Korea is a communist country dominated by one political party that controls the economy and all functions in the state. As a result of the dysfunctional elements of the socialist economic model, and amid the loss of a major benefactor in the USSR and the untimely occurrence of natural disasters, the incredibly severe famine that occurred in the mid-1990s served to disrupt many of the institutions vital to North Korea's Stalinist state structure and command economy. Today, the effects of this breakdown are evident in the development and maintenance of two additional economies within North Korea, in addition to the official communist command economy. First, is the *jangmadang* (market ground) economy, where every day North Korean citizens buy and sell commodities in the many markets scattered across the country, which has produced a generation that has grown more capitalist in nature and less dependent and in awe of the state. The second is an elite economy, in which North Korean political and military elites compete for access to state resources in order to run quasi-private enterprises in pursuit of hard currency. The elites' antagonistic relationship among themselves is complicated by a symbiotic relationship with the state, because each side needs the other for opportunities for revenue accumulation. In summary, North Korea is much less communist than the regime would like to admit.

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THE COMMUNIST STATE OF NORTH KOREA: A CAPITALIST SOCIETY

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ABSTRACT

The Democratic People's Republic of Korea is a communist country dominated by one political party that controls the economy and all functions in the state. As a result of the dysfunctional elements of the socialist economic model, and amid the loss of a major benefactor in the USSR and the untimely occurrence of natural disasters, the incredibly severe famine that occurred in the mid-1990s served to disrupt many of the institutions vital to North Korea's Stalinist state structure and command economy. Today, the effects of this breakdown are evident in the development and maintenance of two additional economies within North Korea, in addition to the official communist command economy. First, is the *jangmadang* (market ground) economy, where every day North Korean citizens buy and sell commodities in the many markets scattered across the country, which has produced a generation that has grown more capitalist in nature and less dependent and in awe of the state. The second is an elite economy, in which North Korean political and military elites compete for access to state resources in order to run quasi-private enterprises in pursuit of hard currency. The elites' antagonistic relationship among themselves is complicated by a symbiotic relationship with the state, because each side needs the other for opportunities for revenue accumulation. In summary, North Korea is much less communist than the regime would like to admit.

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I. INTRODUCTION

The Democratic People's Republic of North Korea (DPRK) was established following the division of the Korean peninsula between the United States and the Soviet Union in the wake of World War II (WWII) .[1] Kim Il Sung was installed by the USSR to be, simultaneously, the leader of the Korean Worker's Party (KWP) and the leader of the state (Figure 1). Naturally, the DPRK's political economy came to resemble that of the Soviet Union, a communist country dominated by one political party that controlled the economy and all functions in the state. The Soviet Union would collapse in 1991, but the Kim family and the KWP would continue their domination over the North Korean state and attempt to hold on to its socialist roots. However, as a result of the dysfunctional elements of the socialist economic model, and amid the loss of a major benefactor in the USSR and the untimely occurrence of natural disasters (whose effects were compounded by poor governance and poor economic and agricultural management), the severe famine that occurred in the mid-1990s served to disrupt many of the institutions vital to North Korea's Stalinist state structure and command economy.[2]

[1] Victor D. Cha, *The Impossible State: North Korea, Past and Future*. 1st ed. (New York: Ecco, 2012), 69.

[2] Stephan Haggard , and Marcus Noland. "Sanctioning North Korea: The Political Economy of Denuclearization and Proliferation," *Asian Survey* 50, no. 3 (May 2010): 543. https://doi.org/10.1525/as.2010.50.3.539.

Figure 1. The birth of the Regime[3]

Today, the effects of this breakdown are evident in the development and maintenance of two additional economies within North Korea, in addition to the official communist command economy. The first is the *jangmadang* (market ground) economy, where every day North Korean citizens buy and sell commodities of both necessity and comfort in the many markets which now can be found scattered nearly everywhere across the country. The second is an elite economy, in which North Korean political and military elites compete for access to state resources in order to run quasi-private enterprises of varying sizes in pursuit of hard currency. Significantly, both of these parallel economies are distinctly capitalist in nature, undermining not only the regime's official fiction that it continues to run an orthodox communist economy, but also the ability of the command economy that does still remain to recover from the effects of the famine.

The breakdown of state institutions which were the backbone of the command economy, combined with the growth of capitalist-like parallel economies, has changed the dynamics of domestic relationships within the DPRK. The parallel capitalist economies

[3] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinist Utopia*. (Oxford: Oxford University Press, 2013), 341.

within the state have affected relationships between the state and three social groups: average citizens, political elites, and military elites. Furthermore, a capitalist mindset has changed dynamics internal to these social groups to include intra-family relationships amongst citizens and the competition between military and political elites for state resources. This thesis investigates how the North Korean economy has changed in the post famine era and how this transformation has affected core social and political relationships in the country.

This thesis proceeds as follows. First, a brief literature review discusses the scholarship concerning both private market activity in communist states and the intricacies of North Korean private market activity in particular. Chapter two provides a short overview of the pre-famine command economy, including its social structure. This section also discusses the various factors that led to the famine of the mid-1990s, the devastation caused by the famine itself, and how this experience crippled state institutions. Chapter three discusses the post-famine parallel economy, known as the *jangmadang* economy, that developed from roughly 2000 to the present day as a result of ordinary citizens response to the famine. Chapter four covers the same time period, examining the elite economy, with section A and B covering political and military elites, respectively. Finally, Chapter five explores how the development of these economies shaped domestic relationships. Section A examines how the *jangmadang* economy has produced the *jangmadang* generation, how this group views the state, and how intra-family relationships are changing as a result of market activity. Section B examines the triangular relationship between military elites, political elites, and the regime.

Literature Review

North Korea is not unlike many other communist countries, in that it can be comparatively difficult for analysts to decipher how the state and economy actually function and how this might differ from the official face of the state and economy presented to the rest of the world. At the same time, many lessons can be learned from other formerly traditional-communist countries and economies that have dissolved or transitioned into capitalist systems. Since the fall of the Iron Curtain, a great deal of information has become

available about these states. The literature review that follows here first discusses the private economies that function inside nominal command economies, with a focus on the communist states of Eastern Europe, which saw black market or private economies develop as a means (whether planned, tacitly accepted, or amid active state disapproval) to prop up countries' official command economies. Next, the literature review discusses debate over how the North Korean private economy works and is structured. Like many other aspects of the DPRK domestic arena, its private economy (or, better said, economies), represent a variation on what was seen to emerge in other communist states. Additionally, because of the difficulty of acquiring reliable information on the inner workings of the state in North Korea, a debate exists about just how many parallel economies operate outside of the official command economy in the first place.

Contrary to common belief, private economies, sometimes referred to shadow economies, are commonplace in communist regimes. Since these informal economies are important for providing stability within communist states, it is important to try and understand how they work and how they intertwine with their formal counterparts. To that end, there exist many studies of how these relationships work in former communist states.

Many of the former communist states of the eastern bloc of Europe "depended on 'second economies,' the black and gray markets that served as the safety valves for the rank inefficiencies and hypocrisies of the formal state economy."[4] Hungary had a very strong private economy that created a complex system of legal and illegal interaction between the country's formal and informal economies.[5] Even the Soviet Union, arguably the country whose name is most synonymous with communism, had its own share of private market activity. Grossman, in his study of the USSR underground economy, notes that private market activity flourished in the communist giant even as soon as just after the end of WWII.[6] He argues that the underground economy became important because "it

[4] Justin V. Hastings, *A Most Enterprising Country: North Korea in the Global Economy*, Ithaca ; (London: Cornell University Press, 2016.) 15.

[5] Hastings, 16.

[6] Gregory Grossman, "Sub-Rosa Privatization and Marketization in the USSR," *The ANNALS of the American Academy of Political and Social Science* 507, no. 1 (January 1990): 46. https://doi.org/10.1177/0002716290507001005.

supplies goods and services of great variety and often relatively superior quality, which the official sector cannot provide properly, if it provides them at all, or cannot provide as cheaply."[7]For decades, these capitalist markets helped to make up for many of the deficiencies of socialist economic structures.

In his study on private economies as a destabilizing force for communist regimes (and as background for discussion on North Korea's version in particular), Dukalskis identifies four main ways in which these markets can help strengthen a nominally communist economic regime:

> The shadow economy can be stabilising for both the official economy and the political system in four distinct ways. First, the vague permissibility of market activities is beneficial to the regime insofar as it allows the flexible enforcement of the law…. Second, the shadow market can alleviate inefficiencies and supplement the poor performance of the official economy…. Third, the hidden economy can act as a social pacifier in contexts featuring a scarcity of goods and services promised by the state…. Fourth, the hidden economy can entrench economic and political inertia by creating vested interests in the status quo.[8]

These advantages have led some communist states—including North Korea—to endorse and even encourage the development of such private economic activity, in many forms. Dukalskis continues to elaborate, though, upon several reasons why these economies can prove not only helpfully supplemental, but also disruptive when intertwined with otherwise socialist economies:

> However, there are at least three other ways in which the parallel market contributes to corrode the power of a socialist regime. First, the existence of a pervasive second economy demonstrates that the regime's ability to enforce its will is limited…Second, the shadow economy can act as a social and material foundation for opposition to the regime…Third, the parallel market can facilitate cynicism from collectivist ideologies and activities sponsored by the regime.[9]

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[7] Grossman, 47.

[8] Alexander Dukalskis, "North Korea's Shadow Economy: A Force for Authoritarian Resilience or Corrosion?" *Europe-Asia Studies* 68, no. 3 (March 15, 2016): 490. https://doi.org/10.1080/09668136.2016.1154137

[9] Alexander Dukalskis, "North Korea's Shadow Economy," 491.

Therefore, private economic activity presents a double-edged sword for communist states: these shadow economies can be both advantageous and disruptive to communist regimes. Understanding the complex relationships which develop from these interactions can be crucial to understanding the regime as a whole.

Amongst the scholars who have examined the coexistence of an official command economy and private market economies in North Korea in particular, while there is a general consensus that parallel economies do exist next to the official command economy and serve an increasingly important role, there is a disagreement about how many parallel economies exist, and how to determine which ones are important enough to count as such. Greitens, for example, proposes that two parallel economic tracks were born: one created by elites on the basis of their access to state assets, and the other created by common citizens given their need for basic necessities.[10] Greitens summarizes, "North Korean elites pioneered one set of transnational links to the outside world to further both their physical and political survival, while ordinary people adopted and created another set of illicit trans-border connections to survive."[11] She further argues that as these two parallel economies have continued to interact with the state and each other, internal relationships within North Korea have begun be restructured as well.

Conversely, Habib separates North Korea's private sector into even more parallel economies than Greitens does. Habib argues that as a result of the famine of the mid 1990s, the North Korean economy is now split into five separate economies. The first is the official, or command, economy, which consists of a planned economy with all financial institutions owned and operated by the state.[12] The second is the "illicit economy," which revolves around illegal activities on the part of the state, which deals in the exportation of

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[10] Sheena Greitens, "Explaining Economic Order in North Korea" In *Korea and the World: New Frontiers in Korean Studies*, edited by Gregg Brazinsky, 129–30.(New York. Lexington Books. 2019).

[11] Greitens, 129–130.

[12] Benjamin Habib, "North Korea's Parallel Economies: Systemic Disaggregation Following the Soviet Collapse," *Communist and Post-Communist Studies* 44, no. 2 (June 1, 2011): 152. https://doi.org/10.1016/j.postcomstud.2011.04.004.

narcotics, counterfeit currencies, smuggling, and money laundering.[13] The third economy he describes is the "court economy," in which the Kim family buys its support from the political elite with lavish gifts.[14] For Habib, the most important economy is the fourth, the military economy, which he argues accounts for 70 percent of North Korea's domestic output.[15] Not only does the military generate revenue from the sale of military technology and arms, but the military also owns several firms and entire production chains involving farms, fisheries, and textile factories.[16] Finally, Habib describes a fifth, entrepreneurial economy, made up of the markets that ordinary citizens have constructed as a source of income and as a place to consume commodities. Similar to Greitens, Habib holds that the interactions of these economies with each other and the state have influenced domestic relationships inside of the DPRK.

This thesis classifies North Korean private economies in a similar manner, drawing on the literature presented here by both Greitens and Habib but modifying their categories in an attempt to better capture the current conditions of the North Korean state. Similar to Greitens, the case will be made that two parallel economies exist outside of the command economy: an ordinary citizen economy, which will be referred to as the *jangmadang* (market) economy, and an elite economy, with components that have military and political elites, respectively, at their cores.

These distinctions are based on the different types of resources available to each subset of social actors. The *jangmadang* economy is dominated by mostly-small means of local production, private plots, and small volumes of smuggling. Meanwhile, political elites have access to state resources which can be exploited to profit both the regime and themselves personally. The military similarly has access to many state resources, but the military has particularly benefited from North Korea's comparatively recent *songun* ("military first") policy, which provided it an uneven amount of state funding, its own labor

[13] Habib, 154.

[14] Habib, 154.

[15] Habib, 153.

[16] Habib, 153.

force (the million man army), and preferential treatment, beginning under the reign of Kim Jong Il in the late 1990s. Contrary to Habib's categorization, this thesis does not set aside the illicit economy as its own category, because many of these economic actors deal with both licit and illicit activities in unison. Conversely, this thesis departs from Greitens' grouping all elites together. Lumping political and military elites together ignores the expanded influence of the military under Kim Jong Il and the intra-elite competition for state resources that the current system has fostered.

II. THE COMMAND ECONOMY: STRUCTURE AND COLLAPSE

North Korea is typically characterized as a destitute country. With an annual GDP amongst the lowest in the world (in terms of both its absolute and *per capita* amounts), there is good reason for such a label. During the first few decades of the country's existence, though, North Korea's economy was robust in many ways. The DPRK was the more affluent of the two states on the Korean peninsula, reflecting not only the fact that South Korea's economy was previously vastly weaker than it is today, but also the stronger condition of the North Korean economy itself. Cha, in his discussion of the North Korean economy, describes the initial years after the formation of the state as "the Best Days" of the North Korean regime, built upon a foundation of a plethora of state of the art industrial facilities left over from Japanese occupation and inherited by North Korea (with some amount of wartime degradation) upon the close of the war in 1945.[17] The DPRK held 72 percent of the Korean peninsula's heavy industrial capacity and 92 percent of its hydroelectric capacity.[18] Although it was by no means an economic powerhouse, North Korea was reasonably successful, both by the standards of communist economies at the time and in comparison to its neighbor to the south.

A. HOW THE COMMAND ECONOMY WORKED

Much of North Korea's industrial advantage over its southern counterpart was decimated in the Korean War, when much of the DPRK's infrastructure was leveled by American forces. The effort to rebuild the North's industrial capacity would set a precedent for economic support by the two major communist states of the time: China and the Soviet Union. Cha summarizes this policy:

> Kim Il-sung received heavy industrial equipment, power plants, hydroelectric dams, electrified railroads, and irrigation systems from Soviet benefactors. China offered crude oil, food, and fertilizer. North Korea

[17] Victor D. Cha, *The Impossible State: North Korea, Past and Future*,(1st ed. New York: Ecco,. 2012.), 28.

[18] Cha, 28.

> gained additional currency by exporting gold, zinc, steel, and minerals to both Moscow and Beijing.[19]

Sino-Soviet relations would deteriorate quickly, but the KWP developed what Lankov calls its " equidistant policy," in which, for most of the pre-famine era, it was able to balance concessions (or lack thereof) to the two states in an effort to maximize aid from each.[20] The support of both the USSR and the PRC would become crucial to propping up the DPRKs economy moving forward.

Domestically, every aspect of the command economy was controlled by the state, like many other communist countries. As a means to control production, every business became property of the DPRK. As Lankov notes, "between 1956 and 1958 small private workshops were nationalized, while all farmers were pressed to join agricultural cooperatives."[21]Since every business was state-owned, every job was also controlled and provided by the state. Every able-bodied man and woman (who did not marry and become a full time housewife) was expected to work in some capacity and was more than likely employed in a state-owned factory.[22]Additionally, farmers were only allowed to farm the collective fields, and not able to maintain a private plot.[23] In summary, these measures allowed the KWP to have complete control over of the means of production throughout the state.

Citizens were also entirely dependent on the state for all their consumption needs. Most importantly, food rations were distributed through public distribution system (PDS) based on citizens' respective jobs.[24] When originally implemented, the PDS system provided the average North Korean worker a grain ration of 700 grams of grain; housewives were granted 300 grams, and those who participated in arduous labor were

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[19] Victor D. Cha, *The Impossible State,* 30.

[20] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinist Utopia*. 34 -35.

[21] Lankov, 52.

[22] Lankov, 52–53.

[23] Lankov, 53.

[24] Lankov, 50.

granted 900 grams.[25] The same types of planned rationing was applied to all parts of the North Korean diet, making citizens dependent on the state for all of their daily subsistence. What would normally be described as "consumer" goods, such as electronics, were also distributed through the state through people's work units as rewards for exemplary work.[26] In short, everything was supplied by the state.

Similar to other communist economies, North Korea's economy suffered from certain inherent flaws of planned economies. The communist structure does not incentivize maximum productivity and does not allow economies to steer themselves toward their comparative advantage. The state attempted to balance this lack of production by importing massive amounts of resources and relying on aide from the communist bloc. As mentioned above, China and the USSR were amongst the DPRK's main contributors. Demick summarizes the DPRK's reliance on other states:

> The country got subsidized oil, rice, fertilizer, pharmaceuticals, industrial equipment, trucks, and cars. X-ray machines and incubators came from Czechoslovakia; architects from East Germany. Kim Il-sung skillfully played the Soviet Union and China against each other, using their rivalry to extract as much aid as possible.[27]

The drying up of this aid due to the fall of the USSR would be a major factor in the famine of the mid 1990s, as discussed below.

B. SOCIAL STRUCTURES

As a result of the structure of the command economy, the state and the KWP became nearly synonymous. The KWP sought to maintain its monopoly of state control through many different mechanisms. The Kim family established two very rigid social structures (whose power began to erode in the post-famine era): a social stratification and classification system known as the *songbun* system and a patriarchally-dominated society.

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[25] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinist Utopia*, 50.

[26] Lankov, 53.

[27] Barbara Demick, *Nothing to Envy: Ordinary Lives in North Korea*, (Spiegel & Grau trade pbk.. ed. New York: Spiegel & Grau, 2010). 69.

Both of these hierarchical structures were intangible forces, but both were extremely effective in controlling the population at large.

The *Songbun* System

The *songbun* system allowed the state to place every single citizen into a specific category, and these categories ultimately determined their access to state resources. Hemmings, in his study of North Korea's inner workings, breaks down the basic structure of this hierarchical *songbun* system:

> Comprising three groups (and various subcategories), the system defines membership to each group according to ideological loyalty to the state (and to the Kim family), setting the highest group as the politically loyal 'core class' (25 per cent of the population). Below this is the 'wavering class' (50 per cent of the population) and below that is the 'hostile class' (25 per cent of the population).[28]

One's *songbun* therefore became the deciding factor in practically every interaction with the state. People with high *songbun*, or those in the loyal class, were allowed to become members of the KWP, were assigned the best housing, lived in the more affluent areas of the country, such as Pyongyang, were considered for the best schools and jobs, and had access to luxuries such as travel permits.[29] Conversely, those classified in the lower classes were assigned menial work and forced to live in the outskirts of the country, far away from the capital and political elite.

The *songbun* system classified North Korean citizens based on judgments about the reputation of their ancestors. Those in the hostile class might have been South Korean soldiers during the Korean war.[30] Others might have had a great-grandfather who worked with the Japanese colonial government during that country's occupation of the Korean peninsula.[31] Both of these situations would cause a person to be classified with low *songbun*—in effect, to be classified as having tainted or "disloyal" blood. Furthermore,

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[28] John Hemmings, "Deciphering the Democratic People's Republic of Korea ," *International Politics Review* 1 (December 12, 2013): 70. https://doi.org/10.1057/ipr.2013.7.

[29] Hemmings 70.

[30] Barbara Demick, *Nothing to Envy: Ordinary Lives in North Korea*, 35.

[31] John Hemmings, "Deciphering the Democratic People's Republic of Korea ," 70

being placed in a lower *songbun* classification could result from a number of more present-day infractions. Political crimes, such as taking part in market activity, were seen to be amongst the worst crimes and would result in the arrest of three generations of a family and *songbun* demotion.[32] Naturally, this created strong incentives for North Korean citizens to avoid these infractions and increased the effectiveness of the *songbun* system as a tool for control for the KWP.

The *songbun* system was intimately tied to the command economy. As stated above, those who lived in the capital, Pyongyang, were amongst the most affluent in the state. More generally, those with the best *songbun* were allowed to live in cities which took priority when it came to resources, especially food, but also when it came to luxury and comfort items. Logically, of course, the opposite could be said for members of "the wavering class." Those of "tainted blood" (*beidsun*) were particularly locked into their inferior social—and thereby political and economic—position.[33] The *songbun* system was extremely rigid in terms of upward mobility: almost no amount of effort at school or work could alter this categorization or its effects.[34] Demick, for example, tells the story of Mi-Hee (the pseudonym of an eventual defector to South Korea), who, despite being the most talented singer in her town, was not admitted to any performing arts schools because of her father's past as a South Korean solider.[35]

The *songbun* system allowed the command economy to dictate domestic relationships within the state as well. Though all citizens depended on the state for their food, money, and any luxury commodities, the particular degree to which they could expect state support was determined by their *songbun* status, which implied that citizens had no other option than complete loyalty to the state and the system. At a higher level, beyond subsistence, political elites needed the state in order to advance and enjoy the luxury items which are afforded to only those most loyal to the state. Military elites also needed the

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[32] John Hemmings, "Deciphering the Democratic People's Republic of Korea ," 70

[33] Barbara Demick, *Nothing to Envy: Ordinary Lives in North Korea*, 31.

[34] Demick, 31.

[35] Demick, 33.

good favor of the state and Kim regime in order to secure resources. Political elites, military elites, alongside average citizens, were effectively incorporated within the *songbun* system, in a command economy that attempted to scrupulously reward those deemed the most loyal to the regime.

Women's Work

Historically, the DPRK has been a male-dominated society. Women had very little in the way of social, political, or economic status, as "the father and husband [we]re expected to be the breadwinners and decision makers of the household."[36] Lankov describes the typical role of women in the North Korea as follows:

> It was a common assumption in the Kim Il Sung-era North Korea that women should not aspire to have careers in politics or administration. The common wisdom was that a girl should look for a proper husband and, if possible, for a job that would leave her enough time to fulfill her primary duties as a mother, wife, and daughter-in-law.[37]

Evidence of this standard is rampant throughout the pre-famine era. Almost all of the highly-appointed women in politics could attribute their good career fortune to their membership in the ruling Kim family.[38] This trend would change dramatically during the famine and the post famine period—that is, at least, at the level of average citizens, even if not at the elite level.

C. THE FAMINE

The famine that plagued the DPRK during the 1990s reflected the inherent flaws of planned economies, discussed earlier, but was exacerbated by the changing—and deteriorating—international environment surrounding the North Korean regime. Haggard summarizes the "perfect storm" that led to the catastrophe:

> The causes of this collapse were multiple, including long-run distortions associated with the socialist growth model…. The failure to adjust to the

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[36] Baek, Jieun. *North Korea's Hidden Revolution: How the Information Underground Is Transforming a Closed Society*, 64.

[37] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 40.

[38] Lankov, *42*

> rapid decline of Soviet support is the principal reason both the industrial and agricultural sectors of North Korea went into a secular decline in the first half of the 1990s. The floods of 1995 were only a final shock.[39]

Although, the fall of the Soviet Union and the stoppage of the resources provided by that political patron was certainly a hard blow for North Korea, the USSR had begun to reduce its aid to the state well before its collapse, and the DPRK refused to make the proper adjustments.

Additionally, Cha points to the regime's poor economic policy choices, its crippling debt, and natural disasters as other significant sources of the eventual famine. The KWP's policies emphasized ideology that heroically assumed the state could overcome production shortfalls simply through more effort from its citizens.[40] This movement to make up for low production with "revolutionary zeal" only compounded the negative effects produced by the shortcomings of the planned economy.[41] Arguably the most important shock to North Korea's economy was the loss of its last major benefactor upon the collapse of the Soviet Union in 1991. The DPRK was highly dependent upon aid and discounts from the Soviet Union, which came to a complete halt in 1991 when the country fell.[42] By this time, all other states, including the communist bloc of Europe, China, and western states such as France and the UK, who helped to prop up North Korea's economy had begun to not only recall its debts but also refuse to allow the regime to borrow money (though other forms of trade did continue). Cha notes that the DPRK was able to secure 1.2 billion dollars in loans before other countries realized the regime was unable and unwilling to repay these loans.[43] Finally, natural disasters exacerbated these issues.[44] Cha identifies several of these disasters:

> The August 1995 floods basically broke the back of the North Korean economy and led to the great famine. It destroyed the four western provinces

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[39] Stephan Haggard, and Marcus Noland, "Sanctioning North Korea," 543.

[40] Victor D. Cha, *The Impossible State*, 107.

[41] Cha, 107.

[42] Cha, 113–115.

[43] Cha, 108

[44] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia, 96.*

> in the North and wiped out about 70 percent of the annual rice harvest and over 50 percent of the maize harvest.[45]

The combination of these adverse conditions would prove literally deadly to the North Korean people and figuratively so to crucial institutions in the command economy.

At the height of the famine, malnutrition, starvation, and infertility are assumed to have caused between 600,000 and one million deaths.[46] Concurrently with drastic mortality increases, overall standards of living dropped, as factories closed and even the simplest of necessities, such as electricity, became a luxury.[47] By 2000, both agricultural and industrial output had dropped to half their 1990 levels.[48] Since then, North Korea has become synonymous with poverty. The famine crippled the effectiveness of many of the economic institutions at the foundation of the command economy. The rationing system stopped, jobs could no longer provide salaries, and people were forced to find new ways of finding food and money.[49]As a result, the economy, which had historically been dominated by the state, made way for large vibrant sectors of private activity.

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[45] Victor D. Cha, *The Impossible State*, 119.

[46] Victor D. Cha, *The Impossible State*, 170.

[47] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia*, 95.

[48] Lankov, 95–96.

[49] Lankov, 95–101.

III. *JANGMADANG* ECONOMY

The breakdown of the fundamental institutions of the command economy because of the famine forced average citizens to find new ways to acquire their basic necessities. None of these institutions was a more important loss than that of the Private Distribution System (PDS). After the dissolution of the PDS, the majority of early market activity was centered around the trade of food. Markets spread quickly and began to transition from trading to selling as more and more citizens were forced to fend for themselves. By the time the worst years of the famine has passed, markets had begun to encompass a variety of commodities, including electronics and other luxury items. It is estimated that "the private sector now produces between 25 and 50 percent of North Korea's estimated GDP."[50] Lankov notes, "In 2012, refugees agree that the survival income for a family of three or four is 50,000 won (some $15 according to the current exchange rate)—roughly 10 times the official salary."[51] Although markets were born out of necessity, and possibly allowed to remain open because the state saw them as a temporary evil during the famine, they have since grown into a sophisticated economy outside of the official planned economy, with their own rules and norms.

A. SEARCHING FOR FOOD

At the height of the famine, farmers' markets were amongst the first to develop as a new normal institution for the purchasing and selling of crops. Farmers siphoned off crops from collective farms and misappropriated food aid stocks to sell in these private markets.[52] Additionally, farmers who lived further away from political centers, and thus were subject to less oversight, were able to find alternative arable lands to cultivate away from collective fields.[53] As Lankov describes, "A quick look at a satellite picture shows

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[50] "Who Works in North Korea's Private Sector? | NK News - North Korea News," April 25, 2016. https://www.nknews.org/2016/04/who-works-in-north-koreas-private-sector/.

[51] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 149.

[52] Benjamin Habib, "North Korea's Parallel Economies," 154.

[53] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 101.

the presence of numerous small fields of irregular shapes and sizes located in the mountains."[54] Although it was illegal to sell food—specifically, any type of grains—these crops began to trickle into markets, to be bought and bartered for by starving North Korean citizens.[55] Much of this rural activity was initiated in the northeastern region of the DPRK, which was the region both most severely affected by the famine and the furthest away from Pyongyang, thus creating an area in which people were highly incentivized to break the laws while also having a smaller fear of retribution.[56]

In contrast to the countryside, urban areas lacked the resources to begin private plots and developed different private market activity. Starvation once again being a driving factor, urban markets began to be a place where non-essential household items were sold or exchanged for food.[57] Many citizens saw these exchanges as temporary, but as a necessary evil, having full faith that the PDS would return and the command economy would resume.[58] As with their rural counterparts, cities, and towns in the northeast region of North Korea were where the majority of urban marketization began. Once people began to run out of personal items to barter, people turned to stealing from others or to stealing items like copper wiring from shuttered state factories.[59]

An important element of both rural and urban markets was the fact that the vast majority of the trading and selling of goods was conducted by women. The dominance of women in the markets was a huge development in North Korea. As discussed above, the DPRK has historically been an extremely patriarchal society, but as a result of the emergence of private markets, in many cases women became the primary earners in their households.[60] Lankov notes the difference between other Communist black markets and what developed in the DPRK:

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[54] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 102.

[55] Barbara Demick, *Nothing to Envy: Ordinary Lives in North Korea,* 151.

[56] Sheena Greitens, "Explaining Economic Order in North Korea," 140.

[57] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 102.

[58] Sheena Greitens, "Explaining Economic Order in North Korea," 141.

[59] Greitens, 141.

[60] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 104.

> Market vendors in North Korea are by no means the kind of street toughs one might encounter in black markets of other countries. Instead, they are largely housewives who make and sell in order to keep their family alive.[61]

This development will be discussed below as well with regard to the changing social dynamics in North Korea brought on by the economic shifts in the country.

B. MARKETIZATION GROWS

Marketization quickly began to spread from the northeast region of the DPRK to the rest of the country. As these markets began to grow and spread, the commodities available became more diverse. Some market vendors began to make a shift away from serving purely as straightforward traders, bartering off household items and scavenged materials, into serving as small entrepreneurs, selling items produced from their limited resources.[62] Demick recounts a story of a DPRK woman, (the pseudonymously named) Mrs. Song, who reluctantly became a market vendor after suffering years of strife brought on by the famine.[63] Mrs. Song and her daughter were quickly able to make a sustainable living from selling cookies, providing both small amounts of income to facilitate their business and food that allowed them not to become another starvation fatality.[64] It was through this same process that many other North Korean citizens, most of whom were women, began to transform themselves into capitalists—arguably in spirit as well as in behavior.

As markets became more complex, demand for luxury items rose as well. The demand for electronics for entertainment is one of the best examples of how North Korean markets have transformed from places for the acquisition of necessary items into sources of all types of consumption goods. Electronics such as TVs, DVD players, cell phones,

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61 Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia, 10.3*

62 Lankov, 104.

63 Barbara Demick, *Nothing to Envy: Ordinary Lives in North Korea,* 151–154.

64 Demick, 151–154.

and computers have all become status symbols for North Korean citizens.[65] Additionally, markets providing these electronics have caused the DPRK to be flooded with foreign media and information.[66] Smuggled South Korean movies and dramas are now wildly popular in the North Korean state.[67] As markets have grown and spread, the number of available commodities have grown and spread as well.

C. SMUGGLING

Where do these products come from? How do TV sets make it to a North Korean market when they are not being produced in the DPRK? In 1996, during the worst stages of the famine, crossing the Chinese border was recategorized as a minor offense, and political crimes no longer resulted in the arrest of one's entire family.[68] As some citizens began to make the transition from local traders to local producers, other citizens realized the possible monetary gains to be found in acquiring Chinese products and selling them in North Korean markets. The relaxing of the law removed much of the risk associated with these crimes. Therefore, smuggling became a huge component of the *jangmadang* economy.

The North Korean-Chinese border did not become a free-for-all, though. Smugglers still had to be careful, and in most instances they were required to bribe guards and lower-level officials in order to maintain their businesses.[69] However, the new norm of bribing officials simply increased the number of people willing to cross the border for goods. Smugglers knew that bribes were just the price of doing business. Some early smugglers would eventually move into a wholesaling role, paying large bribes to move large sums of goods across the border with the help of the guards whose official role is to attempt to stop

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65 Andrei Lankov, ,"Telling the Subversive Truth: Information Dissemination and North Korea's Future," *The Korean Journal of Defense Analysis* Vol. 23, No. 1. (March 2011), 25. http://www.kida.re.kr/kjd

66 Jieun Baek ,North Korea's Hidden Revolution: How the Information Underground Is Transforming a Closed Society,(Yale University Press.) 45.

67 Andrei Lankov, "Telling the Subversive Truth," 25.

68 Justin V. Hastings, *A Most Enterprising Country*, 49.

69 Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia, 109.*

such activities.[70] Among those who began to accumulate the capital and resources to become wholesalers, many found themselves in this position because of their connections to Chinese, Japanese, or South Korean relatives.[71] These connections, which under the *songbun* system had been a curse, now became a blessing. Foreign contacts began helping small-time entrepreneurs produce very successful businesses that operated in markets around the country. In total, then, smuggling became an important piece of the *jangmadang* economy.

D. THE STATE REACTS TO MARKETIZATION

The DPRK's relationship with black and grey markets is a confusing one because it follows a cyclical path instead of a linear one. Initially, facing a starving population during one of the worst famines in recorded history, the state chose to ignore the development of black and grey markets in most cases.[72] In some cases, citizens were even encouraged by local officials to develop private land plots and participate in market activity.[73] During this period, authorities would sometimes enforce crackdowns on markets, only to expeditiously reopen them once the food shortage returned.[74] As North Korea came out of the worst years of the famine and began to recover (by North Korean standards), the state was forced to deal with the issue of markets because they had grown too large and widespread to ignore.

When the state finally acknowledged the existence of these black markets, it first appeared as if the DPRK would choose a path of reform similar to that of the PRC. The KWP, cautiously avoiding the use of the word "reform" in its rhetoric, introduced the "Economic Management Improvement Measures of 1st July" in 2002.[75] This plan lifted

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[70] Lankov, 109.

[71] Justin V. Hastings, *A Most Enterprising Country*, 54.

[72] Justin V. Hastings, *A Most Enterprising Country*, 98.

[73] Sheena Greitens, "Explaining Economic Order in North Korea," 140.

[74] Greitens, 140.

[75] NK News - North Korea News, "North Korea's Markets: A Brief History of Crackdowns and Tolerance | NK News," September 7, 2015. https://www.nknews.org/2015/09/north-koreas-markets-a-brief-history-of-crackdowns-and-tolerance/.

bans on market activity, including the legalization of the sale of garments and consumer electronics.[76] Additionally, some State-Owned Enterprise managers were given a degree of autonomy over their employees and operations.[77]

The KWP made an abrupt shift in policy following these attempts at reform. From 2005 to 2009, DPRK officials passed a number of regulations aimed at reining in market activity throughout the state.[78] As Hastings writes, "In August 2005, the central state issued regulations designed to bring the private markets to heel, discourage cross-border (private) trade, and return ordinary citizens to at least partial dependence on the Public Distribution System."[79] In 2007, the state banned women under age fifty from selling goods in the markets and limited the allowable commodities sold in markets to domestic products.[80] Finally, in 2009 the state redenominated its *won* currency to 1/100 of its original value, essentially causing many households' life savings to plummet to zero.[81] Similar to attempts at instituting reform, though, attempts to return to a command economy proved equally unsuccessful. The currency redenomination, in particular, was a huge failure, to the extent that even North Korea's normally officially-infallible government officials were unable to avoid admitting fault. The prime minister issued a public apology, and the regime even went as far as executing a minister-level KWP member, using him as a scapegoat for the policy after uncharacteristically visible public discontent.[82]

Following the currency reform blunder, state officials began to turn a blind eye towards market activity once again. Most evidence suggests that a policy of indifference continues today: no regulations which would greatly hinder private business have been produced in the Kim Jong Un era, and there has been some suggestion that local officials

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[76] North Korea News, "North Korea's Markets: A Brief History of Crackdowns and Tolerance."

[77] North Korea News, "North Korea's Markets: A Brief History of Crackdowns and Tolerance."

[78] North Korea News, "North Korea's Markets: A Brief History of Crackdowns and Tolerance."

[79] Justin V. Hastings, *A Most Enterprising Country*, 99.

[80] Hastings, 100.

[81] Hastings, 100.

[82] Byung-Yeon Kim, *Unveiling the North Korean Economy: Collapse and Transition*, (Cambridge ; New York: Cambridge University Press, 2017), 177.

have been encouraged to cooperate with entrepreneurs.[83] Therefore, after a period of reforms and crackdowns, the official DPRK stance on markets has returned to its original stance of ambivalence and quiet assistance or encouragement.

[83] North Korea News, "North Korea's Markets: A Brief History of Crackdowns and Tolerance."

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IV. ELITE ECONOMY

Elites took a much different approach to their famine crisis response, for two principal reasons. First, it took much longer for the effects of the economic crisis to reach elites. Demick, for example, recounts the story of Jun-Sang (a pseudonym), a university student who was studying in the capital city of Pyongyang. She describes how, while involved in his studies at school, Jun-Sang always had enough to eat and electricity, but on his return trips to his hometown was faced with the harsh realities of the famine.[84] This was because major cities had always enjoyed priority distribution of resources, especially food (and there is no city was more important than the capital city of Pyongyang). Second, both military and political elites had access to state resources that far outweighed any access available to the average citizen. Greitens argues, "Opportunistic elites, faced with crisis, leveraged access to what would normally be considered state resources … in order to engage in business operations to generate revenue for themselves and for the regime in Pyongyang."[85] At the direction of these opportunistic elites, many industries have become semi-privatized.

Elites who participate in these semiprivate industries have been able to amass substantial amounts of personal wealth. This has created a demand for leisure activities such swimming in water parks(Figure 2). Elites in Pyongyang for example, now have the opportunity to enjoy ski resorts within the city, to go and sing karaoke, and take yoga classes.[86] Only a relatively small group of North Korean elites are affluent enough for these activities, but they have been able to acquire the revenue to do so through exploitation of state resources .

[84] Barbara Demick, Nothing to Envy: Ordinary Lives in North Korea, 190.

[85] Sheena Greitens, "Explaining Economic Order in North Korea," 133.

[86] Anna Fifield, *The Great Successor: The Divinely Perfect Destiny of Brilliant Comrade Kim Jong Un*, (First edition. New York: PublicAffairs, 2019.) CH 9, CH 10.

Figure 2. People gathered at North Korean Water Park[87]

It is worthwhile to discuss what the term elite means in the North Korean context. One group to note is the small contingent of North Korean citizens who made their beginnings in the *jangmadang* economy, but who then were able to accumulate enough capital to make the leap into more profitable sectors of the private economy. These entrepreneurs were able to establish "state owned" businesses in which they themselves were essentially empowered to make all relevant decisions and keep the lion's share of the profits. These North Korean citizens have transformed themselves into a new monied class of North Korean citizens known as the *donju*.[88] These ***donju***, or "masters of money," are North Korean businesspeople who have been able to manipulate the DPRK system to make thousands and even hundreds of thousands of dollars for themselves—a huge sum by North Korean standards.[89]

The more common use of the word elite applies when discussing high-ranking members of the military and KWP. These elites run semi-private state-owned enterprises (SOEs) that are involved in international trade as well as massive domestic production. A decade of *songun* ("military first") policy has allowed military elites to consume more than their fair share of state resources, but the various groups of elites do compete for the same resources and participate in many of the same industries. Additionally, relationships

87 "How Leisure Time Is Changing for North Korea's Privileged," *BBC News*, April 21, 2018, sec. Asia. https://www.bbc.com/news/world-asia-42910896.

88 Anna Fifield, *The Great Successor: The Divinely Perfect Destiny of Brilliant Comrade Kim Jong Un*, (First edition. New York: PublicAffairs, 2019.) 143.

89 Fifield, 143.

between these two sets of elites and the state are critical to the regime and have changed drastically over the transition from Kim Jong Il's to Kim Jong Un's rule. The bulk of this section will discuss how political and military elites have developed their economic position in the post-famine period.

A. THE MASTERS OF MONEY

As mentioned above, some DPRK citizens became so successful that they began to branch out from the smaller-scale *jangmadang* economy into other enterprises—many of which were state-owned in name but privately owned in practice—and in the process have transformed themselves into the *donju*.[90] The restaurant industry represents a significant example of this type of establishment. Lankov summarizes this complex relationship as follows:

> According to official papers, an eatery is owned by the state and managed by the relevant department of the municipal government. However, this is a legal fiction. A private investor makes an informal deal with municipal officials, promising them a kickback, and he/she then hires workers and buys equipment. It is assumed that a certain amount of the earnings will be transferred to the state's budget. In return the private owner runs a business at his/her discretion, investing and protecting profits.[91]

These small enterprises are extremely profitable and have elevated many from the *jangmadang* economy to an elite status.

This same setup can be found in other sectors of the economy as well. The retail industry is another example of state-owned small businesses that are run and operated by private citizens. The state, once again, owns the retail establishment, but the manager is the actual owner, and it is the manager who buys textiles both from wholesale smugglers and state suppliers.[92] Lankov describes women such as "Ms. Young," who was once an engineer at a state factory and began trading dresses during the famine years, and who was able to expand her operations to the point of owning several clothing shops and employing

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[90] Justin V. Hastings, *A Most Enterprising Country,* 54.

[91] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 104.

[92] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 105.

dozens of women.[93] The retail industry has seen a dramatic rise in private ownership, with over fifty percent of retail shops in the hands of private owners by as early as 2009.[94] These small businesses have allowed North Korean citizens who once occupied the lowest rungs of society to climb the economic ladder.

Many more examples of these kinds of businesses can be found scattered throughout Pyongyang. Lankov notes, "*Donju* run businesses within North Korea's state-owned enterprises, quasi-autonomous ventures that a bankrupt state tolerates in exchange for a chunk of the profits."[95] These businesses range from coffee shops to saunas to restaurants and everything in between.[96] Although the extreme privation faced in North Korea might lead one to imagine otherwise, North Korean families do—when able—go to local coffee shops for cake and ice cream.[97] These experiences are only enjoyed by a select few, but they are worth noting for their similarities with their much larger elite counterparts.

B. POLITICAL ELITES

These tales of semi-independently achieving the North Korean dream should not be considered the standard, however. Having connections to the KWP has always provided advantages within the DPRK and still continues to today. In 1974, the party founded the Daesung Trading Company and the Daesung bank, which were kept under its control, separate from the state, and with the specific purpose of engaging in trade to provide resources for the party.[98] As the state gave more and more control of state-owned enterprises (SOEs) away to other players, the KWP has been able to use these two institutions, and many other enterprises, to expand their economic holdings and influence.

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93 Lankov, 112–113.

94 Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 105.

95 "Bread and Circuses; North Korea's New Monied Classes," The Economist, Aug 08, 2015, 31–32,http://libproxy.nps.edu/login?url=https://search-proquest.com.libproxy.nps.edu/docview/1702693995?accountid=12702.

96 "Bread and Circuses; North Korea's New Monied Classes,"

97 "Bread and Circuses; North Korea's New Monied Classes."

98 Byung- Yeon Kim, *Unveiling the North Korean Economy,* 125.

In particular, these provided an avenue for KWP members to easily access the trading licenses created by the state as a new control mechanism, and this provides huge advantage over other citizens in the state.[99] Before discussing the types of companies under the control of the KWP, it is important to establish, more generally, what control the state gave away in the post-famine years and how Kim Jong Un and the regime has attempted to control these institutions indirectly.

SOE Decentralization

The state began loosening its grip on SOEs starting as early as the 1980s, but the famine exacerbated this decentralization, as the state no longer had its previously-existing power to control these firms. Kim describes how SOE have gone through a decentralization process in which the state has relinquished control to several different actors. He identifies three different phases of decentralization: First, ownership of several large trading firms was transferred from the state to provincial governments and cabinet institutions, but this phase affected only a small number of firms, and the central planning committee still set these companies' inputs and output quotas.[100] In the second phase, firms that could engage in trade directly with other countries were established by ministries and other committees outside of the central government.[101] Finally, in the third phase, permission to engage in foreign trade was expanded to include not only large trading firms, but also cities and counties; and all three could then sell their imported commodities directly to consumers.[102] The final phase of decentralization, coming in 2002, was perhaps the most important, as it empowered even lower-level officials to engage in foreign trade.

The loosening of control by the state opened the door for several different actors to expand their influence by earning money outside of the command economy in the name of the state. Kim names four different entities as having become more influential: the army,

99 Byung- Yeon Kim, *Unveiling the North Korean Economy*, 129.

100 Kim, 124.

101 Kim, 124.

102 Kim, 125.

the Worker's Party, the cabinet, and regional governments.[103]From this perspective, the army (which will be discussed at length below) and the KWP have emerged as beneficiaries of the new system. The relenting of control not only over these institutions themselves, but even over the quotas that govern them, meant the regime would have to devise other methods of control or be eventually find itself removed from these institutions' operations entirely. For that reason, SOEs are required to compete for trading licenses that are granted by the North Korean regime.

The *Waku*

The Kim regime looked to maintain some control over foreign trade and firms by issuing trading licenses, or *waku*, which designates those eligible to trade and dictates the allowable amount of goods to be traded.[104] SOEs applying for a trading license have to demonstrate access to foreign business partners, sufficient capital, a viable business plan, facilities (factories, farms, and research institutes), and resources that actually allow production and export.[105] Amassing the collection of items on this list would be nearly impossible for average citizens and is presumably difficult even for most of the smaller entrepreneurs in the state. However, for political elites who already have access to these resources and some form of access to Kim Jong Un, who serves as the ultimate decider on *waku* distribution, obtaining these trading licenses is relatively easy.[106] In this manner, the KWP has been able to greatly expand its economic influence through its many SOE and trading companies.

Although Kim Jong Un makes the decisions on who receives trading licenses, once a company or induvial obtains one, they do have the ability to extend that license to other businesses or individuals. Hastings summarizes this relationship below:

> While companies cannot buy or sell the licenses themselves, once granted the ability to export a certain quantity of goods from a certain area, a trading company can rent out any unused quota… The fee cited by some sources is

[103] Kim, 125.

[104] Byung- Yeon Kim, *Unveiling the North Korean Economy*, 129.

[105] Justin V. Hastings, *A Most Enterprising Country*, 109.

[106] Byung- Yeon Kim, *Unveiling the North Korean Economy*, 129.

> around 10 percent of the value of the exports. This allows the officially permitted company to charge a fee for the quota's use, while it allows the company actually doing the exporting to operate with some measure of political protection.[107]

This creates a mutually beneficial relationship between larger SOEs and smaller businesses; and because it is easier to obtain a *waku* as a KWP member, it is easier for lower-level officials to obtain leftover quota amounts as a way to legitimize their business practices. A system is created in which money is funneled upwards to top-tier KWP officials building upon profits from the sale of goods and resources.

KWP SOEs

As a result, the types KWP members controlling SOEs span a large spectrum from lower-level elites to the very top of the regime. For example, Lankov describes a "Mr. Kim," once a low-level police official, who acquired a large amount of capital by taking bribes, and who then went into business with a cousin who had made a vast amount of money through smuggling tobacco.[108] The two were then able to bribe their way into operating a gold mine officially owned by a trading company, but in reality owned and operated by Mr. Kim and his family—that is, allowed to be owned at the price of a fee paid to the state.[109] Through his political connections to the KWP, Mr. Kim is now the proud "owner" of an extremely profitable gold mine.

On the other end of the spectrum sits Ri Jong Ho (again, a pseudonym). Ri began his work in Office 39, the component of the North Korean bureaucracy responsible, as part of the command economy, for providing Kim Jong Il with his luxury money in the 1980s.[110] Fifield describes his work resumé before his defection from North Korea in 2014:

> His last job was in the Chinese port city of Dalian, not far from the border with North Korea, where he was the head of a branch of Taehung, a North

[107] Justin V. Hastings, *A Most Enterprising Country*, 109–110.

[108] Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinist Utopia*, 111.

[109] Lankov, 111–112.

[110] Anna Fifield, *The Great Successor*, 147.

> Korean trading company involved in shipping, coal and seafood exports, and oil imports. He had previously been president of a ship-trading company and chairman of Korea Kumgang Group, a company that formed a venture with Sam Pa, a Chinese businessman, to start a taxi company in Pyongyang.[111]

As the head of these companies, Ri was able to make millions of dollars for the regime . Over the span of about nine months, Ri sent approximately 10 million dollars back to the state.[112] How much he made for himself is unknown; but as Fifield points out, Ri must have made a good sum of money, as he now resides comfortably in the Virginia suburbs with his family.[113] More important and general, political connections allow a wide spectrum of elites, from lower-level officials to higher-ranking ones, to run extremely profitable enterprises that also then funnel money back to the party and the state.

C. MILITARY ELITES

Just as the KWP emerged from the famine as a major economic player, so did the North Korean military. Political elites and military elites resemble each other in many ways. Both have come to own major trading companies and, because of their elevated status in the country, have a relatively easy path toward gaining coveted trading licenses. However, two factors separate military elites from their political elite counterparts. First, is the military-first doctrine of *songun* that was pushed by then-leader Kim Jong Il beginning in the 1990s. This doctrine made the military the primary recipient (that is, even more so than previously) of the relatively small pool of resources the state did have in the post-Soviet era. Secondly, the military benefits from controlling a large labor force of immobilized soldiers, who essentially remain at its disposal for employment in military SOEs and trading companies. It is important to note that the KWP, as opposed to the military itself, does have some ability to use the military (and the public at large) as its personal labor force. The fact that the military enjoys a massive labor force under its *direct* control, though, is a decided advantage.

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111 Anna Fifield, *The Great Successor,* 147.

112 Fifield, 147.

113 Fifield, 147.

Songun

Songun, or the "military first" policy, was introduced by Kim Jong Il in 1995 while he was giving a speech to a military unit.[114] That Kim Jong Il sought to rally the North Korean people through a cry for a strong military was no coincidence during the height of the famine, as the regime was undoubtedly concerned for its survival (or, at least, more concerned than was normal, even if not as concerned as one might expect amid famine-driven devastation on such a large scale). More important to this topic of discussion was the aim of the military first policy: to create an economy that could support a military with the ability to defend North Korea's sovereignty from foreign invasion.[115] Smith summarizes how the military interacted with the markets: "The institutionalization of military-first politics embedded a national security mentality such that economic policy was subordinated to a militarized understanding of national security."[116] *Songun* became institutionalized as one of North Korea's major guiding principles for both foreign and domestic policy until the rise of Kim Jong Un.

As a result of the *songun* policy, the military received the majority of the state's resources and funding. It is hard to obtain accurate data about the North Korean economy, but according the Bank of Korea, the DPRK GDP experienced some degree of minor ebb and flow of GDP growth and decline following the country's recovery from famine from 1999 onwards.[117] During this time, defense spending remained at around 15 percent of government spending and therefore, the military received priority distribution of resources which could have been used to help revitalize a struggling economy—a military, which, as Smith points out, was "the best-resourced and best-organized political and social institution in the world."[118] As stated earlier, political elites' access to resources allowed them to more easily establish credible SOEs and apply for a *waku*. As part of the best funded and

[114] Hazel Smith, *North Korea: Markets and Military Rule*, (Cambridge: Cambridge University Press, 2015), 235.

[115] Smith, 236.

[116] Smith, 236.

[117] Smith, 244.

[118] Smith, 244.

resourced institution, military elites were decidedly advantaged as they looked to capitalize on the new economic order.

Additionally, the military first policy also resulted in an influx of men into the military. The official DPRK policy towards military service was the following:

> Those who are healthy, able-bodied, sane and have no family problems are selected from among the volunteers and are educated in full-time military or technical educational institutes for one to two years before being posted to units as servicemen on active duty.[119]

Of course, this was not the North Korean regime's actual stance. In practice, most military-aged males were expected to serve their time in the armed forces.[120] This has meant that although the DPRK is one of the world's poorest countries, and not a particularly large one in terms of population (approximately 25 million), it has the fourth-largest standing army in the world, with 1.1 million members and 7.5 million reservists.[121] Military elites have used many of these troops as their own ready labor force, enjoying a large and particularly compliant pool of labor for their many SOEs, such as construction projects in Pyongyang.[122]

Military SOEs

Similar to the KWP, the military controlled its own economic institutions outside of the official command economy, even in pre-famine years. In 1970, the Second Economy Committee was established.[123]This commission took charge of all military-related economic issues, merged several different organizations under the umbrella of the defense industry, which was then able to produce and export military commodities.[124] The Second Economy Committee was officially independent of the KWP and its centrally planned

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119 Hazel Smith, *North Korea: Markets and Military Rule*, 226–227.

120 Smith, 226–227.

121 Andrei Lankov, *The Real North Korea: Life and Politics in the Failed Stalinst Utopia,* 201

122 "Bread and Circuses; North Korea's New Monied Classes,"

123 Byung- Yeon Kim, *Unveiling the North Korean Economy*, 125.

124 Kim, 12.5

economy, thereby allowing military elites some limited form of autonomy.[125] In the wake of the famine, the decentralization of control of SOEs and *songun* policies would combine to allow the military to expand its economic holdings and influence as it obtained numerous companies.

As the decentralization of control of SOEs was occurring, Kim Jong Il's *songun* policy resulted in 100 military officials being appointed as delegates of the Tenth People's Assembly, a 100 percent increase from the previous assembly.[126] In a relative short amount of time, "The Ministry of the People's Armed Forces established companies to engage in foreign trade, mining, and farming, drawing particularly on their transportation and infrastructure assets to move goods to export.[127] As North Korea began to recover from the effects of the famine in the early 2000s, military companies were in control of many of the most important enterprises, such as sea ports.[128] Particularly in the mining industry, the military was granted extensive trading rights by Kim Jong Il.[129] Military officials were able to use their official positions to obtain the necessary licenses to advance their economic holdings as a result of the rise in the political influence and the economic turbulence created by the great famine. Conversely, Kim Jong Un has taken deliberate steps to reduce the influence and power of the military, tipping the balance of power back in favor of the KWP—but the military's economic advantages compared to other potential private economic actors in North Korea remain.

D. BLURRED LINES

These differences among elites are significant and help to shape the economic landscape of the DPRK, but military elites and political elites both participate in many of the same types of enterprises. In some cases, the enterprises are working in unison to

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[125] Byung- Yeon Kim, *Unveiling the North Korean Economy*, 125.

[126] Park, Seong-Yong. "North Korea's Military Policy under the Kim Jong-Un Regime," Journal of Asian Public Policy, vol. 9, no. 1, Jan. 2016, pp. 63. DOI.org (Crossref), doi:10.1080/17516234.2015.1122718.

[127] Sheena Greitens, "Explaining Economic Order in North Korea," 135.

[128] Hazel Smith, North Korea: Markets and Military Rule, 217.

[129] Byung- Yeon Kim, Unveiling the North Korean Economy, 100.

produce revenue for the state. Local officials and military members, such as border guards, often collaborate for monetary gain.[130] On a larger scale, drug and counterfeit currency production have been linked to high-ranking state officials and members of the military.[131] North Korean military vessels have been accused of dropping narcotics at sea, for pick-up by Japanese crime syndicates, with a degree of potency and purity only capable of being produced at state-owned laboratories.[132] North Korean embassies and KWP officials were also accused of distributing the "Super Note," a sophisticated counterfeit currency note, as well as narcotics.[133] Military and KWP elites participate in many of the same sectors of the economy, and so determining which of these elite actors has gained control of the bigger slice of the post-famine industrial pie can prove difficult.

Furthermore, both sets of elites are required to provide revenue back to the state—and ultimately back to Kim Jong Un. For this purpose, SOEs transfer a certain percentage of their profits to the "Revolutionary Fund," a fund of foreign currencies directly controlled by Kim Jong Un for whatever purpose he deems fit.[134] These funds are collected in a number of ways:

> For example, an army organisation may dispatch a businessperson to conduct business with companies in China. This businessperson, who is called 'foreign currency earner' (oihwabeoligun), is required to send a certain amount of foreign currency to the state institution, which then gives part of this currency to the leader. Another example is when trading companies, or institutions to which such companies belong, offer a part of their foreign currency earnings to the leader.[135]

These contributions to the Revolutionary Fund provide Kim Jong Un with hard currency to buy luxury goods unavailable to the rest of the population. This fund also provides Kim with a form of control over the activities of these elites, although this represents only

130 Hazel Smith, North Korea: Markets and Military Rule, 226.

131 Sheena Greitens, "Explaining Economic Order in North Korea," 135–136.

132 Sheena Greitens, "Explaining Economic Order in North Korea," 135–136.

133 Greitens, 135–136.

134 Byung- Yeon Kim, *Unveiling the North Korean Economy*, 131.

135 Kim, 131.

indirect control. Since the leader ultimately both decides whom *waku* are awarded to, indirectly controlling inputs, and requires a remittance from these firms, indirectly controlling their outputs, Kim can play a dominant role in the elite economy and create strife and competition between military and political elites.[136] These intra-elite competitive dynamics have been particularly intense since Kim Jong Un came to power and began to attempt to reduce the role of military (relative, that is, to its role at the height of *songun*). These intertwining relationships will be discussed further below.

[136] Justin V. Hastings, *A Most Enterprising Country*, 102.

V. DOMESTIC RELATIONSHIPS

In an eye-opening scene from the documentary *North Korea: Life Inside the Secret State*, a woman who is operating a transportation service berates an army officer who attempts to stop her from conducting business (Figure 3).[137] "You bastard! You asshole!" she screams, as she shoves him out of her way to continue on her route with an apparently not-fully-authorized truck full of North Korean citizens.[138] This scene strikes many as impossible: most newsworthy stories published about North Korea tell the story of an abusive state terrorizing its citizens and give the impression that the populace is entirely unable (and perhaps unwilling) to carry out even minor, day-to-day acts of resistance. How is it, then, that this woman is allowed to essentially attack an officer without being snatched into a proverbial black van?

Figure 3. Woman attacks army officer

[137] *North Korea: Life inside the Secret State*, directed by James Jones (2015, Synergetic Distribution, 2015), https://www.amazon.com/North-Korea-Inside-Secret-State/dp/B018YLC40K

[138] *North Korea: Life inside the Secret State.*

Meanwhile, in the same documentary, a woman in an elegant dress steps out of a luxury car on her wedding day. The narrator describes her as a member of the elite who inhabit the capital—that is, "elite" in the everyday sense of the term, connoting high social status and wealth (as opposed to simply "elite" in the more generic political science sense connoting those with significant advantages of political power or knowledge). Although many elites have been able to acquire their fair share of capital in North Korea's new economic system, as described above, this does not explain how such elites find themselves able to procure a Mercedes in, or to, North Korea. The competition between elites to earn capital for the state, and for themselves in the process, is fierce. This chapter will examine how economic change in North Korea has driven change in the different social cleavages and power relationships discussed thus far throughout this thesis.

A. STATE VS EVERYDAY CITIZENS

Jang Jin Sung, the former chief propagandist for North Korea (and subsequently a defector), described the ruling Kim family's portrayal within North Korea in the following terms: "They promote the leader as the Sun. They say if you get too close you burn to death; if you go too far you freeze to death."[139] Starting with Kim Il Sung, and continuing through his two hereditary successors, the North Korean regime has grown extremely skilled at making the leader of the state look god-like. In *The Interview,* a fictional comedy about news reporters who are granted the opportunity to interview Kim Jong Un, the movie's main characters joke about a rumor the North Korean leader does not have to the need to relieve himself in the same way as a normal person. This seems like satire—but Jang Jin Sung also mentioned the North Korea people believed Kim does not use the toilet.[140]The state's propaganda machine was a very powerful and effective tool for the regime. However, for average citizens, who during the famine were left to survive on their own, sometimes literally left to freeze to death in the cold, the famine served to help break down the illusion of the Kim family set forth by the state. As state institutions like the PDS broke down and markets rose to take their place, DPRK citizens gained some level of self-

139 *North Korea: Life inside the Secret State.*

140 *North Korea: Life inside the Secret State.*

sufficiency in the absence of the state and the sun—i.e., the leader. Thus, today's North Korea average citizen likely has a different view of his or her relationship to the state.

The *Jangmadang* Generation

The results of citizens' new reliance on markets instead of the state is the birth of what Baek refers to as the "*jangmadang*" or market generation.[141] A whole generation of people now living in North Korea have never known the PDS or the state-run jobs which used to provide for families. The aforementioned *jangmadang* economy, centered around the development and expansion of black markets.[142] To recap, the black and grey market activity involved the trading of resources and materials for food initially, but subsequently grew into markets in which almost any item can be purchased, including electronics.[143] The growth of markets has led to a diminishing of state influence.

Most important, Baek identifies three major characteristics of this new generation: they are capitalist in nature, have significantly more access to information, and are much less loyal to the state and regime.[144] She observes that this generation, growing up without state-provided food and salaries, has been forced to resort to their own devices to make money in order to secure basic necessities. This has made them capitalist in everything but name. The two latter characteristics are results of the former. Smuggling food leads to smuggling other things, such as media and information. Baek also argues that these citizens' exposure to outside sources of information helps to lift the God-like veil which surrounds the Kim family. This in turn makes younger citizens, in particular, less loyal to the repressive state—but also older citizens who have now lived under these conditions for roughly two decades, as exemplified by the informal entrepreneur mentioned earlier with no fear of pushing back against police officers attempting to intrude upon her small-scale transportation service.

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141 Jieun Baek, *North Korea's Hidden Revolution: How the Information Underground Is Transforming a Closed Society*. (New Haven ; London: Yale University Press, 2016), 183.

142 Jieun Baek, *North Korea's Hidden Revolution*, 140–141.

143 Sheena Greitens, "Explaining Economic Order in North Korea," 141.

144 Anna Fifield, *The Great Successor*, 184–185.

Furthermore, the complex cycle of crackdowns and tolerance of markets by the state has led to rent-seeking relationships between low-level officials and those citizens who operate in markets. Especially during times when the state has looked to crack down on markets, citizens know that bribing officials and state police can successfully lead them to turn a blind eye toward these practices.[145] The size of the bribe depends on the size of activity citizens are looking to pursue, but these new norms are now accepted as a part of doing business in the DPRK. Consequently, market vendors and officials have developed an interest in maintaining the current system. Although vendors have to share some of their profits, the alternative would be to try and survive on the meager salaries provided by the state (the notion of operating fully independently likely appears more remote). On the other hand, officials likely have grown aware that whether the alternative to the current coexistence of the official and shadow economy involves crackdowns or reform, a change from the status quo would likely involve losing out on their currently-lucrative unofficial sources of income.

The *songbun* system fades away

Once result of the fraying of state institutions and market-driven adaptation has been that the "power of the dollar" has likely drastically risen in the eyes of everyday North Korean citizens. Today, North Korean citizens commonly say that "everything except a cat's horn" can be bought in the market.[146] This concept clashes not only with core values of the command-economy structure, but also with the core social-structure elements correlated with this economic approach, such as the *songbun* system. Traditionally, one's *songbun* category was the driving factor in acquiring resources such as better housing, a better job, or luxuries such as travel permits. Now, as Tudor and Pearson argue,

> One can, however, buy the effects of better *songbun* —university places, coveted jobs, high-quality apartments, medical care, greater freedom of movement, and immunity from prosecution or harsh punishment, in most

[145] Sheena Greitens, "Explaining Economic Order in North Korea," 146.

[146] Alexander Dukalskis, "North Korea's Shadow Economy," 495.

> cases…. Many of the growing entrepreneurial class have poor *songbun* , but it scarcely makes a difference in their lives.[147]

The *songbun* system, once an extremely useful control tool for the state, has seen its power effectively stripped away and replaced by that of the almighty dollar.

Also, in a bit of ironic justice, those who traditionally suffered from low *songbun* status were often positioned to make the biggest gains in the *jangmadang* economy. As mentioned previously, those with foreign family connections were often able to quickly establish themselves in the *jangmadang* economy because of their ability to acquire advice and supplies from outside the state. These citizens' connections to areas such as Japan or South Korea resulted in their being categorized in the lower classes and being barred from the best resources under the *songbun* system. However, under the new, market-driven economic system, where everything can be bought, people with access to supply inputs and the knowledge needed to use them are in position to become the most prosperous. Lack of position within existing social and economic structures, in effect, also leaves such citizens willing and able to exploit newer and riskier—but also more lucrative—social and economic structures.

Women's empowerment

Another critical shift in the lower rungs of society that has been facilitated by the *jangmadang* economy has been the empowerment of women. As stated previously, although women in North Korea might not always have been officially barred from participating in the domestic workforce, they were certainly encouraged to marry and to maintain as their first priority their role (present or future) as a housewife. The attitude that women's work was to care for the family, though, allowed women to disappear from their jobs more easily in search of food and supplies when the famine hit.[148] As Smith argues,

> The entire society considered it legitimate that women should leave their workplaces to search for food and goods to support their families, as women

[147] Daniel Tudor, and Pearson, James, *North Korea Confidential: Private Markets, Fashion Trends, Prison Camps, Dissenters and Defectors*, (Tokyo; Rutland, Vermont; Singapore: Tuttle Publishing, 2015), 172.

[148] Hazel Smith, *North Korea: Markets and Military Rule*, 206.

> were understood as "naturally" responsible for domestic duties….Women's participation in market activities was understood as a 'temporary measure' to deal with "temporary difficulties."[149]

As the famine worsened, more and more women began to transition from the workplace or home to foraging, trading, or selling whatever they could in order to provide food for their families and fulfill their "womanly duties."

As noted earlier, these market institutions would spread and transform, resulting in a now vibrant black-market network through many parts of the state that is dominated by women. Women run the market stalls and sell food and other imported commodities.[150] As result women have become the breadwinner of many families, far out earning their husband's official but comparatively meager state-provided salaries. The modern North Korean woman makes double her husband's monthly salary in a day, assuming that his state salary is still actually being paid in the first place (which is often not the case).[151] When a kilogram of rice costs 5,000 *won* on the black market, while the PDS hasn't been fully functioning for over two decades, families—and, in particular, the husbands allowed and required to work in the official labor market—cannot survive without the 2,500 *won* being brought in by their wives daily.[152]

Women are therefore becoming the head of the family, making decisions, and voicing their opinions—to the extent this reflects relative economic power. They have even begun to speak to their husbands in the less formal level of Korean speech, something usually reserved in North Korea only as husbands' right to use toward their wives.[153] Although these facts may seem trivial to a western mindset, in North Korea, a state which has historically been a patriarchal society from top to bottom, they arguably represent gigantic steps towards empowering women, all of which can be directly linked to the structure of the *jangmadang* economy.

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[149] Hazel Smith, *North Korea: Markets and Military Rule*, 206.

[150] Daniel Tudor, and James Pearson. *North Korea Confidential*, 20.

[151] Jieun Baek, *North Korea's Hidden Revolution*, 64.

[152] Jieun Baek, *North Korea's Hidden Revolution*, 64.

[153] Daniel Tudor, and James Pearson. *North Korea Confidential*, 20.

Future stability

Overall, the breakdown of state institutions and the experience of providing for one's survival has led everyday citizens to become much less dependent on the state. Markets which provided for citizens during the famine period, have since evolved into places where most commodities can be bought. The demand created for technologies such as TVs, DVD players, and computers have helped to breakdown the state's control of foreign media and information. As mentioned before, the latter point has helped to remove the aura of omnipotence which once surrounded the Kim family, a factor which has historically played a large role in the cult of personality associated with the leading family.

None of this necessarily implies that the DPRK is on the verge of collapse. There are certainly leaks and cracks beginning to form in the state's repressive apparatus.[154] While these leaks have created some amount of distrust for the government, though, distrust is not equal to dissatisfaction; and there is no particular evidence to support a strong argument that DRPK citizens are overly unsatisfied with the current regime.[155] Perhaps more important, North Korean citizens lack the opportunity to turn any distrust or dissatisfaction into collective action, since group activity is banned—a ban that by most reports can still be successfully enforced—and all communications are monitored.[156] Simultaneously, low-level officials have become dependent on the extraction of capital which accumulates from the corruption of the system.[157] Therefore, a sort of symbiotic relationship which has emerged. Citizens who have grown up in the *jangmadang* era might not trust their government, but they do understand the power of their "dollars" within the newly-evolved system and recognize that any change to that system might result in reduction of what has become their central tools for seeking profits—or simply subsistence. Meanwhile, the capital extracted from these market activities in the forms of bribes and

154 Jieun Baek, *North Korea's Hidden Revolution*, Ch 6.

155 Daniel Tudor, and James Pearson. *North Korea Confidential*, 178.

156 Jieun Baek, *North Korea's Hidden Revolution*, Ch 6.

157 Sheena Greitens, "Explaining Economic Order in North Korea," 146.

protection is funneled back to the center, incentivizing officials, and the state to maintain the status quo.

B. THE STATES VS ELITES

Elites' relationship with the state has followed a different path than that of the average citizen. The *songbun* system, combined with the overwhelming and unchecked power of the state itself, had afforded elites access to the resources they desired in the command economy simply by virtue of belonging to the top-tier class. The main price required for these resources was undying loyalty to the state. Therefore, in the case of elites, loyalty to the state has historically been and continues to be the supreme currency in the relationship between the two. How that loyalty is shown has evolved with the growth of the elite economy. Elites must now show their loyalty by providing inputs to the revolutionary fund, and in return are supplied with luxury gifts.[158] In addition to these gifts, they are given access to more *waku*, creating a clientelist relationship between elites and the state. Perhaps more interesting has been the struggle for influence between KWP elites and military elites, as Kim Jong Un has looked to increase the role of the KWP after more than a decade of military-first policies. The competition created between elites is an important part of Kim Jong Un's North Korea and plays a vital role in shaping the political economy today.

Clients of the State

Rewarding elite members of the regime with gifts is not a new phenomenon. During the Kim Jong Il era, the North Korean leader would provide many comrades with expensive gifts such as gold-plated Rolex, cars, and houses.[159] During this time period, when the command economy still dominated the DPRK, the funds for these gifts and the Kim family estate were funneled directly from Office 39 and the Daesung bank, both of which were under the control of the KWP.[160] In the post-famine era, as the command economy has

158 Byung- Yeon Kim, *Unveiling the North Korean Economy*, 131.

159 Daniel Tudor, and James Pearson. *North Korea Confidential*, 93.

160 Kim Kwang Jin, "The Defector's Tale: Inside North Korea's Secret Economy," *World Affairs* 174, no. 3 (2011): 40–41. Accessed December 3, 2020. http://www.jstor.org/stable/41290342.

failed, these institutions have grown increasingly less able to provide inputs. Thus, the Revolutionary Fund, which historically had played an insignificant role, began to play a vital one.

As discussed above, all SOEs, whether they are run by military elites or political elites, are required to contribute a portion of their profits to the Revolutionary Fund. Those funds are then allocated towards whatever the leader deems fit. Elites are therefore doubly incentivized to make profits. The more profits they make, the more money they get to keep for themselves, but also the more political "points" they earn with Kim Jong Un. Kim is then incentivized to reward his top earners with more *waku* (and luxury consumption goods).[161]

This has created a symbiotic relationship between elites and the state. The state needs elites to run their enterprises and funnel currency back to the center so that Kim Jong Un can then reward elites with the opportunity to generate more wealth for themselves and the state. As Greitens argues,

> One of the key survival techniques that North Korea has learned, therefore, was to harness foreign earned income to prolong its rule, and to manage its own elites, in part, by embedding them into the processes that generate and distribute foreign income.[162]

Elites are now critically invested in the system created by their parallel economy. This vicious cycle constantly reinforces itself.

Military Elites vs Political Elites

It should not be assumed or taken as implied, though, that these dynamics involve various types of elites working harmoniously together with the North Korean state toward the common goal of earning money and political survival. Of course, this is hardly the case. To recall, during the early 2000s, as the DPRK began its recovery, *songun* policies vaulted military elites to the forefront just as decentralization of foreign trading began to take place. Kim Jong Il placed military officials in positions higher than their KWP counterparts, and

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161 Sheena Greitens, "Explaining Economic Order in North Korea," 138.

162 Greitens, 138.

meanwhile diverted the bulk of the state's limited resources to the military in the name of supporting national defense above all. Park summarizes this phenomenon cogently: "The military-first policy enhanced the influence and power of the KPA under the Kim Jong-Il regime. With enhanced prestige, the military has somewhat intervened in various projects to gain economic profits."[163] Enhanced prestige allowed military elites to acquire more resources and rights to trading permits. This in turn allowed the military to earn more money to funnel back to the center, creating a cycle of increasing influence and power.

Since 2012, Kim Jong Un has looked to reduce the power of the military, with a particular focus on the army. In a little under a year of rule, Kim Jong Un replaced, demoted, moved, or purged approximately two thirds of North Korea's senior generals.[164] The most high-profile of these replacements was that of Ri Yung-Ho, the Chief of Staff of the Korean People's Army. Hastings summarizes rumors surrounding the power struggle as follows:

> Kim Jong-un wanted to take back some of the trading rights that had been lavished on the military under Kim Jong-Il. Ri Yong-ho balked, and as a result was forcibly removed from office. Kim Jong-un appears to have been attempting to rein in the military and redistribute foreign income opportunities to other interest groups in the state, notably the party and the cabinet.[165]

Ri Yong-Ho's even daring to rebuff Kim Jong Un and the state is a testament to how high military elites had climbed on the domestic ladder. It is this influence and power that Kim Jong Un has looked to curtail since coming into power, and the KWP has been the beneficiary of this rebalancing.

Kim Jong Un also looked to rein in some of the power of political elites. The very public purge of his uncle, Jang Song-thaek, is a signal example. Following an order from Kim Jong Un to return ownership of a group of fisheries from Jang back to the military, a

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[163] Seong-Yong Park, "North Korea's Military Policy under the Kim Jong-Un Regime," *Journal of Asian Public Policy* 9, no. 1 (January 2, 2016): 63. https://doi.org/10.1080/17516234.2015.1122718.

[164] Park, 64.

[165] Justin V. Hastings, *A Most Enterprising Country,* 102.

fire fight broke out between Jang's security forces and the army.[166] This display of defiance sealed Jang's demise; but also, tellingly, one of his officially listed crimes was selling off land and coal resources to pay off debts.[167] Hastings argues, "If Jang was going to sell off state assets to foreigners, he could have at least made a profit. It was Jang's business incompetence, not just his corruption and lust for power, that was worthy of opprobrium."[168] Although there has definitely been a more concentrated effort to rein in military elites, the argument could be made that Kim Jong Un has looked to rein in elite power as whole. Most important for this discussion, these power struggles have frequently revolved around competing quests to control certain economic rights.

Future Stability

Kim Jong Un and the state have been able to create a symbiotic relationship between themselves and North Korean elites. Kim Jong Un's parallel nuclear and economic development policy (*byungjin*) is evidence that the economy is now a greater priority in the DPRK. As stated by a North Korean News agency, "The DPRK's line of simultaneously pushing forward economic construction and the building of nuclear force is the strategic line which should be permanently maintained to meet the supreme interests of the Korean revolution."[169] The economy being front and center alongside the construction of a nuclear force, which historically has been the centerpiece to North Korean foreign policy, represents a significant shift in North Korean politics. As evidenced from the previous sections , military and political elites play a pivotal role in trade and profits produced from SOEs. Although all of these firms are owned by the state on paper, in practice elites are running these enterprises and providing vital currency to the regime.

On the other hand, the regime has been able to create an environment of competition across the cleavages of elites. Competition between KPA generals and KWP members is fueled by access to trading rights which are finite and controlled directly by Kim Jong Un.

166 Justin V. Hastings, *A Most Enterprising Country*, 101.

167 Hastings, 102.

168 Hastings, 103.

169 Seong-Yong Park, "North Korea's Military Policy under the Kim Jong-Un Regime," 66.

One way for elites to earn political capital is to provide hard currency back to the center from their various SOEs. The state and Kim Jong Un need these inputs to help fund their own luxurious lives and buy the loyalty of North Korean elites. This process is only entrenching elites further and further into the survival of the state. People are certainly dissatisfied with parts of the regime, but profit-driven incentives likely far outweigh their grievances.

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VI. CONCLUSION

In conclusion, the North Korean economy today is much more complex than the communist label it is often given would imply. A deadly combination of internal and external factors combined to decimate many of the institutions vital to the original command economy installed by the USSR and Kim Il Sung. As a result, two parallel capitalist economies have emerged since the 1990s famine years: the *jangmadang* (market ground) economy and the elite economy. The *jangmadang* economy initially arose as everyday citizens looked to find sources of food and income upon finding the PDS system shut down in many parts of the country. Since then, black markets have expanded in their role of supplying citizens with their basic needs when the state could not. As people recovered from the worst years of the famine, demand for commodities other than food has grown further, to include demand modern technologies and, among a more limited group, luxury items. Although many of these items cannot be produced in North Korea, smuggling rings have been able to inject into the *jangmadang* economy both luxury items and foreign media.

As a result of citizens' reliance on markets for most of their needs, their dependence on the state has been reduced. In conjunction with the greater depth at which foreign information now penetrates the DPRK, there has likely been (as best one can surmise from sources like defector testimony) a dimming of the god-like aura which once surrounded the Kim family. Women's domination of the *jangmadang* economy has also led to an upheaval of traditional intra-family dynamics: becoming the breadwinners of many households, has generated economic power that, in turn, appears to have has strengthened women's social status and political power (within North Korean limits). Overall, compared to its predecessors, the *jangmadang* generation—in particular, the younger generation that has only known market life, but also all North Koreans compared to before—have grown more capitalist in nature and less dependent and in awe of the state.

Secondly, an elite economy has developed as military and political elites looked to take advantage of their access to state resources and the loosening of ownership of SOEs. However, military elites had also begun a period of elevated status upon Kim Jong Il's

accession to power in the 1990s, as Kim looked to rally the state around the cry of the "military first" policy. As a result, the military was the benefactor of the largest number of direct inputs from state resources and had the added advantage of a million-man army at its direct disposal to use as a labor force. Military elites were able use their prestige to acquire more trading rights and control more firms. Political elites, on the other hand, have been able to recoup some of their influence in the state because Kim Jong Un, more recently, has reined in the power of the military and redistributed their trading rights to members of the KWP and regime. Both sets of elites were able to use their respective trading firms to secure *waku* and expand their collective and individual economic holdings and in the post-famine era. The state, meanwhile, in exchange for access to trading rights, requires a "kickback" share in the form of contribution to such state coffers as the Revolutionary Fund. In total, while an antagonistic relationship has been created between different sets of elites, as each looks to compete for state resources, a symbiotic relationship has been created between the state and elites because each side needs the other for opportunities for revenue accumulation.

What do all of these changes mean for the DPRK? For many, the question of North Korean stability is not if but when will it collapse. But with the state's seventy years of existence in mind, it is time to recognize the North Korean regime as much more resilient than many experts would claim. Changes to the North Korean economy, in particular, have created many different groups interested in maintaining the status quo, and seem not to have empowered the left-out who might not be. Groups interested in maintaining the status quo include everyday citizens making a livable wage (by North Korean standards) in black markets, low-level officials who in a day make more from bribes than their monthly salary, elites who run large SOEs and have gained a considerable amount of wealth for themselves—and even Kim Jong Un himself, who has been able to maintain a life of luxury and buy loyalty from critical elites. These groups represent a large and disproportionately powerful swath of the population, with strong incentives to ensure regime stability and a continuation of the current system. There has certainly been a weakening of state power, but nothing substantial enough to lead to a strong expectation of impending doom for the

North Korean state. The communist state of North Korea will likely continue alongside its hidden capitalist society for the foreseeable future.

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